

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
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Options to Promote Rural Broadband in)	WC Docket No. 10-90
Rate-of-Return Areas)	
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Comments of GVNW Consulting, Inc.

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Executive Summary

We support the Rural Association proposal that involves modifying several existing rules in order to allow RLECs to receive support for standalone (data-only) broadband lines through the implementation of a Data-Only Broadband (DOBB) support mechanism. In short, providing support for loops that are used to provide standalone broadband services would promote and accelerate the ongoing IP evolution, and it would finally provide a basis for a Connect America Fund that supports broadband in **all** rural areas.

As the Commission analyzes the issues in this important proceeding, we respectfully request that the needs of all customers, including those in the most extreme areas, be recognized. An appropriate public policy approach for this issue is to ensure a robust process before modeling is applied to rural carriers with their geographically diverse study areas. The flaw in an incomplete process is if it fails to capture with precision the extent to which rural study areas do not “average out” internally.

Our concern with a review of this portion of the instant Public Notice is that it tends toward a “one size fits all” approach, and relies heavily on a yet to be refined and tested CACF model. This provides a poor basis to move forward with a transparent, data-driven platform. We offer some initial criticism of three aspects of the foundational basis for the CACM model: eligibility, data assumptions, and geographical differences.

The Commission has repeatedly stressed its desire to use a transparent, data-driven process to develop telecommunications public policy. If it is to achieve this standard, it must be very careful in the assumptions it uses that are not supported by empirical data.

INTRODUCTION AND BACKGROUND

GVNW Consulting, Inc. (GVNW) submits initial comments filed pursuant to the Commission's Public Notice (DA 13-1112), released on May 16, 2013. In the instant Public Notice, the Wireline Competition Bureau seeks further comment on options to promote the availability of modern voice and broadband-capable networks in rural areas served by rate-of-return carriers, focusing on two possible frameworks. The first option involves modifying several existing rules in order to allow RLECs to receive support for standalone (data-only) broadband lines through the implementation of a Data-Only Broadband (DOBB) support mechanism. We support this concept. The second approach would permit rural carriers to seek model-based Connect America Fund (CAF) Phase II support for broadband. We offer concerns about model-based approaches for rural carriers.

GVNW is a management consulting firm that provides a wide variety of consulting services, including regulatory and advocacy support on issues such as universal service, intercarrier compensation reform, and strategic planning for communications carriers in rural America. We are pleased to have the opportunity to offer comments addressing the issues the Commission has raised in the *Public Notice*, focusing on supporting the first framework as proposed by the Rural Associations.

THE RURAL ASSOCIATION PROPOSAL IS A RATIONAL FIRST STEP TOWARD ACHIEVING PARITY

Under current rules, support is not provided when a customer orders standalone broadband services. Standalone or data-only broadband service is defined as broadband Internet access transmission service to a connection point with an ISP that uses the same loop facilities currently provided by RLECs to enable customers to access the Public Switched Telephone Network (PSTN) or equivalent. In contrast, the CAF is already providing support for price cap carriers regardless of whether their customers take voice or broadband services.

How does the Rural Association (RA) proposal achieve parity? The RA proposal offers to compute Data-Only Broadband Service loop cost funding as the difference between the loop-related costs to provide the service and a Broadband Subscriber Line Charge (BBSLC). The BBSLC, when coupled with a tariffed wholesale transmission rate, serves as a benchmark to ensure rural customers pay a reasonably comparable amount to what customers in non-rural areas are charged. The RA proposal is developed on projected costs, with a true-up mechanism to actual costs; further ensuring reasonable comparability can be achieved. In its present form, the proposal does not address the pressing need for middle mile cost assistance¹ for some rural carriers or other non-network ISP operational costs as reflected in the price cap model.

The Bureau seeks comment on the impact of implementing DOBB on existing support mechanisms for rural carriers. Given the uncertainty surrounding how quickly customers may decide to adopt such a platform from the current low level of adopters

¹ Middle mile costs for some rural carriers will need future attention from this Commission. While some price cap carriers can see where they connect to the Internet backbone, for many rural carriers it is a long trip to get there, even by airplane.

(less than 5% at present), it is difficult to offer a definitive answer as to what such a financial impact could prove to be. If adopted, such a rule change would offer a smoother transition as customers' transition toward a broadband only platform than is currently available under existing rules.

We concur with an excerpt from the ex parte of NTCA – the Rural Broadband Association, The National Exchange Carrier Association, Inc., and the Western Telecommunications Alliance (NTCA, et al) dated February 22, 2013: *In short, providing support for loops that are used to provide standalone broadband services would promote and accelerate the ongoing IP evolution, and it would finally provide a basis for a Connect America Fund that supports broadband in **all** rural areas.* (emphasis in original)

MODELING EFFORTS CONTINUE TO PROVE INADEQUATE IN REGARD TO ACCURATELY CAPTURING RURAL CHARACTERISTICS

The Commission also seeks comment on the benefits of creating “*a more explicit voluntary pathway to model-based support . . . in rural rate-of-return areas.*” As the Commission analyzes the issues in this important proceeding, we respectfully request that the needs of all customers, including those in the most extreme areas, be recognized. An appropriate public policy approach for this issue is to ensure a robust process before modeling is applied to rural carriers with their geographically diverse study areas. The flaw in an incomplete process is if it fails to capture with precision the extent to which rural study areas do not “average out” internally. We agree with the opinion expressed by NTCA – the Rural Broadband Association, The National Exchange Carrier Association, Inc., The Eastern Rural Telecom Association, and the Western

Telecommunications Alliance (NTCA, et al) as noted at page 2 of their WC Docket No.10-90 March, 2013 filing on the related topic of unsubsidized competitors:

*Specifically, nothing less than a meaningful and evidence-based process must be applied at each turn – **without short-cuts** – if the Commission is to fulfill its statutory universal service responsibilities to rural consumers. (Emphasis added)*

As an initial observation, the current state of flux with respect to the Connect America Cost Model (CACM) makes a thorough analysis of its applicability to rural carriers problematic. With the lack of subscription in the first Phase by carriers with lower costs than many rural providers, one can surmise that the CACM is not ready for “prime time global adoption.”

Administratively, we respectfully submit that a separate and specific Notice and Comment process would be required that would analyze the issues specific to rural carriers. Our review of the current CACM process indicates that it is based upon large carrier data and placeholder estimates that would require extensive testing BEFORE being applied to rural high-cost carriers. One such example is the fact that the CACM includes a cost module and a distribution module, which is driven by a number of controls or dials that are geared to meet a predetermined budget target number. We expect the relationship between the rural cost module and a rural distribution module may be markedly different than the current ratios in place for price cap entities.

Our concern with a review of this portion of the instant Public Notice is that it tends toward a “one size fits all” approach, and relies heavily on a yet to be refined and tested CACF model. This provides a poor basis to move forward with a transparent, data-

driven platform. We offer some initial criticism of three aspects of the foundational basis for the CACM model: eligibility, data assumptions, and geographical differences.

Eligibility

Eligibility issues stem from concerns about the veracity of the National Broadband Map data that is the current basis for determining CACM eligibility. While errors and inaccuracies may indeed average out for the larger price cap companies, the magnitude of any errors for rural carrier study areas may have more profound consequences.

Data Assumptions

Assumptions about data include, but are not limited to: rate of return assumptions, capital and operating expense inputs, and infrastructure mix issues.

While earlier versions of the CACM used a 9% rate of return, we believe the currently open docket for rate of return issues will receive additional empirical support that will refute 9% as an appropriate number for rural rate of return carriers. We believe the empirical data will show that a number higher than 9% is appropriate for rural carriers and believe that process should be allowed to play out in accordance with the administrative rules (e.g., 65.103(b)) that the Commission should follow. In the case of rate of return proceedings, there are specific rules that should be followed and not waived or ignored.

The current CACM capital and operating expense inputs have been developed using primarily a large company data sample. Our initial review indicates that these inputs do not capture the variability of costs recorded by small carriers.

Infrastructure mix issues also raise concerns. Though the CACM uses plant mix and sharing assumptions on a state specific basis, there are significant differences across many states that can have a huge impact on individual small company study areas. More testing is obviously needed before application to small rural carriers.

Geographical differences

Geographic differences have not been as important across the large geographies of the price cap companies, but can be pronounced and impactful for small company study areas. While the middle mile assumptions employed in the current CACM version assume low middle mile values which is true for the majority of price cap areas, this is not the case for many rural carriers that serve the areas that are a long distance from the Internet peering point. It is poor public policy to assume away geographic differences without a defensible basis for doing so.

The Commission faces some important decisions in this docket. We encourage the Commission to consider the needs of all customers, including customers that live in high-cost to serve areas, as policies related to cost support are developed. The Commission has repeatedly stressed its desire to use a transparent, data-driven process to develop telecommunications public policy. If it is to achieve this standard, it must be very careful in the assumptions it uses that are not supported by empirical data.

Respectfully submitted,

Via ECFS at 6/17/13

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